

2020

# Travis County Auditor's Office Review of the Travis County Attorney's Office CAPSO and CA Restitution Accounts

#20-34

12/31/2020



TRAVIS COUNTY  
AUDITOR'S OFFICE

PATTI SMITH, CPA  
COUNTY AUDITOR



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To: David Escamilla  
Travis County Attorney

From: Patti Smith, CPA  
Travis County Auditor

Date: December 31, 2020

Subject: CAPSO and CA Restitution Accounts Examination

Scheduled as part of our statutory requirements, the Risk Evaluation and Consulting Division of the Travis County Auditor's Office has completed an examination of the CAPSO (County Attorney Processing Sight Order) fee and restitution accounts. We conducted our examination in accordance with the applicable statutes governing the County Auditor's Office and those relating to County financial and accounting protocols. As a result of our examination, we are providing this report of our findings and recommendations.

## **BACKGROUND**

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Travis County collects fees for processing and collecting restitution on hot checks for both the County Attorney and District Attorney's Offices. The total dollar amount of hot checks written per offender determines whether the County or District Attorney's Office receives the revenue. The County Attorney is to utilize these hot check-related fees to defray office salaries and other expenses, but not to supplement the County Attorney's salary. These hot check collections are governed by Code of Criminal Procedure, Chapter 102, Article 102.007 "Fees for Collecting and Processing Check or Similar Sight Order."

## **SCOPE OF EXAMINATION**

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This examination included an assessment of the adequacy and effectiveness of the overall system of financial controls in place for the CAPSO and restitution accounts during the period October 1, 2019 through September 30, 2020. It included examinations of controls over receipts and disbursements, reconciliation procedures for bank and balance sheet accounts, and accounting controls over internal functions for handling and managing these accounts.

## EXAMINATION METHODOLOGY

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Our work was based on applying sampling procedures to office records and on verbal and written representations from the County Attorney's Office. Sampling relates to examining, on a test basis, evidence supporting the amounts and disclosures in the financial records and statements. The use of sampling techniques would not necessarily disclose all matters in the CAPSO and restitution accounts' financial statements, financial records, and financial controls that might be material weaknesses or misstatements. Regarding the written and verbal representations made by County Attorney personnel, unless otherwise noted in this report, office management maintains that the assertions we relied upon in the examination were correct to the best of their knowledge.

## SUMMARY OF FINDINGS

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There were several findings noted related to the general ledger, financial statements, bank reconciliations, system reconciliations, receipts, and internal controls. These items are detailed in the Areas of Concern section of this report.

## ATTACHMENTS

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**Attachment A:** Overall response from office management.

**Attachment B:** Copies of this office's financial statements for September 30, 2020, are provided in Attachment A. These statements include a detailed statement of revenues, expenditures and changes in fund balance, and a balance sheet for the forfeited property account. In addition, a statement of fiduciary assets and liabilities for the escrow account is included in the attachment. The express purpose of presenting these statements is to provide feedback to Travis County officials. These financial statements have not been audited by Travis County's external auditors.

## EXAMINATION TEAM

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Amanda Muehlberg, CPA, Lead Auditor  
Tracey Powers, Staff Auditor

## CLOSING

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This report is intended solely for the information and use of your office and the Commissioners Court. We greatly appreciate the cooperation and assistance received from the management and staff of the Travis County Attorney's Office during this examination. Please contact us if you have any questions or concerns regarding this report.

DocuSigned by:

*David Jungerman*

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David Jungerman, CIA  
Chief Assistant County Auditor II – REC  
Division

DocuSigned by:

*Patti Smith*

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Patti Smith, CPA  
Travis County Auditor

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Examination File

## AREAS OF CONCERN

### 1. General Ledger Issues

The Risk Evaluation and Consulting Division of the Travis County Auditor's Office has completed an examination of the general ledgers and all FY20 financial statements for the Restitution Trust, Clearing, and CAPSO accounts, noting issues with all three. Our findings are detailed below.

#### *Hot Checks Restitution Trust Account Ledger*

During our review of the Restitution Trust account, we noted the following (x denotes noncompliance):

Balance Sheet	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	Ma '20	Jun '20	Jul '20	Aug '20	Sep '20
Cash-in-Depository agrees to GL	x	x	x	x	x	x	x	x	x	x	x	x
Cash to General Fund agrees to Exhibit A				x							x	
Cash to Unclaimed Property Fund agrees to Exhibit A				x								
Other Liabilities-Misc. agrees to Exhibit B	x	x	x	x	x	x	x	x	x	x	x	x
Other Liabilities-Misc. agrees to GL	x	x	x	x	x	x	x	x	x	x	x	x
Other Liabilities-Misc. Exhibit B agrees to GL	x	x	x	x	x	x	x	x	x	x	x	x
Demand Interest on Exhibit A agrees to GL	x	x	x	x	x	x	x	x	x	x	x	x
Cash-in-Depository per the BS agrees to FACTS Summary TB	x	x	x	x	x	x	x	x	x	x	x	x
Other Liabilities-Misc. per the BS or Exhibit B agrees to FACTS Summary TB	x	x	x	x	x	x	x	x	x	x	x	x
Completed within 5 business days of month end	x											

1. The "Cash in Depository-County" balance per the balance sheet does not agree to the general ledger for any month in FY20 for unknown reasons, as detailed below:

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
BS	147,720.09	145,390.71	148,543.45	158,999.12	150,609.70	146,317.97	133,586.24	128,133.39	144,975.11	142,391.01	154,391.91	155,719.07
GL	145,548.43	145,039.05	146,371.79	156,827.46	148,438.04	144,105.95	131,374.22	125,960.88	142,803.45	140,333.10	152,220.25	153,547.41
Var	2,171.66	351.66	2,171.66	2,171.66	2,171.66	2,212.02	2,212.02	2,172.51	2,171.66	2,057.91	2,171.66	2,171.66

2. The "Cash in Depository-County" balances per the balance sheet and the general ledger do not agree to the balance per the FACTS Summary Trial Balance for any month in FY20, as detailed below:

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
BS vs FACTS	(219.19)	1,621.01	(219.19)	(219.19)	(219.19)	(195.80)	(195.80)	(194.95)	(195.80)	(195.80)	(195.80)	(195.80)
GL vs FACTS	(2,390.85)	1,269.35	(2,390.85)	(2,390.85)	(2,390.85)	(2,407.82)	(2,407.82)	(2,367.46)	(2,367.46)	(2,253.71)	(2,367.46)	(2,367.46)

3. The "Other Liabilities-Misc." balances per the balance sheet do not agree to Exhibit B of the financial statements or the general ledger for any month in FY20. In addition, the amount per

Exhibit B of the financial statements does not agree to the general ledger for any month in FY20. See table below for variances:

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
BS vs ExB	(1,004.55)	835.65	(99.75)	(919.55)	(1,004.55)	(1,004.45)	(1,004.55)	(1,003.70)	(1,004.55)	(1,004.55)	(1,004.55)	(1,004.55)
ExB vs GL	(3,450.89)	(4,114.69)	(9,014.60)	(2,711.59)	(3,003.36)	(3,013.93)	(2,409.54)	(2,449.90)	(2,534.01)	(4,767.86)	(4,837.61)	(5,490.72)
BS vs GL	(4,455.44)	(3,279.04)	(9,114.35)	(3,631.14)	(4,007.91)	(4,018.38)	(3,414.09)	(3,453.60)	(3,538.56)	(5,772.41)	(5,842.16)	(6,495.27)

Note: The amount per Exhibit B is inclusive of \$800 change fund maintained by the office.

4. The “Other Liabilities-Misc.” balances per the balance sheet, Exhibit B of the financial statements, or the general ledger do not agree to the balance per the FACTS Summary Trial Balance for any month in FY20, with the differences detailed below:

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
BS vs FACTS	(7,883.96)	(5,047.36)	(12,538.37)	(7,060.66)	(7,434.05)	(7,427.87)	(7,131.34)	(7,133.17)	(6,848.12)	(9,330.48)	(9,521.33)	(10,095.26)
ExB vs FACTS	(7,679.41)	(6,683.01)	(13,238.62)	(6,941.11)	(7,229.50)	(7,223.42)	(6,926.79)	(6,929.47)	(6,643.57)	(9,125.93)	(9,316.78)	(9,890.71)
GL vs FACTS	(3,428.52)	(1,768.32)	(3,424.02)	(3,429.52)	(3,426.14)	(3,409.49)	(3,717.25)	(3,679.57)	(3,309.56)	(3,558.07)	(3,679.17)	(3,599.99)

Note: The amount per Exhibit B is exclusive of \$800 change fund maintained by the office.

5. The “Demand Interest” amount per Exhibit A does not agree to the amount per the general ledger for any month in FY20. The full balance due per the general ledger should be the amount on the financial statements, not just current month’s interest. In addition, any balance that varies from the current month’s interest earned suggests that funds were either improperly remitted to the Treasurer’s Office or were not remitted in their entirety. Note that in the beginning of FY20, there was a debit balance of \$34.13 in the Interest Liability account.

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Exhibit A	72.24	48.92	49.77	49.77	51.18	23.39	13.10	12.98	13.05	13.90	13.90	14.06
General Ledger	50.33	73.65	72.80	71.64	71.39	99.18	109.47	109.59	109.52	108.67	108.64	108.51
Variance	21.91	(24.73)	(23.03)	(21.87)	(20.21)	(75.79)	(96.37)	(96.61)	(96.47)	(94.77)	(94.74)	(94.45)

### October 2019

The financial statements were signed by the preparer on the 6<sup>th</sup> business day following month end. County policy requires signed financial statements be submitted to the Auditor’s Office within 5 business days of month end.

### January 2020

- The “Cash to General Fund” balance per the balance sheet (\$50.93) does not agree to the amount per Exhibit A (\$49.77). The amount listed on Exhibit A is not for the current month’s interest of \$50.93; instead, it is the interest earned in December 2019.
- The “Unclaimed Property Fund” balance per the balance sheet (\$453.88) does not agree to the amount per Exhibit A (\$538.88), a variance of \$85.

### August 2020

The “Cash to General Fund” balance per the balance sheet (\$13.93) does not agree to the amount per Exhibit A (\$13.90). The amount listed on Exhibit A is not for the current month’s interest of \$13.93 – it is the interest earned in July 2019. In addition, the Due to General Fund schedule on Exhibit A is not accurately calculated.

***CAPSO Account Ledger***

During our review of the CAPSO general ledger, we noted the following:

**Balance Sheet**

1. October 2019 – the “Cash in Depository” amount per the balance sheet (\$121,941.81) does not agree to the amount per the general ledger (\$121,941.61), a variance of \$0.20.
2. August 2020 – the “Cash in Depository” amount per the balance sheet (\$90,702) does not agree to the amount per the general ledger (\$90,573.18), a variance of \$128.82.
3. The “Due to General Fund” amount per the balance sheet does not agree to the amount per the general ledger for any month in FY20. The balance sheet only shows the current month’s interest due; however, there appears to be a running balance of \$113.20 in the Interest Due to General Fund per the general ledger that was never remitted from a prior year(s).
4. Total Assets do not equal Total Liabilities for any month in FY20. As a result, the balance sheets for the financial statements do not balance.
5. The fund balance on the balance sheet cannot be relied on for accuracy due to issues on the income statements in FY20 (see below).

**Income Statement**

1. September 2020 – The “Professional Memberships” balance per the income statement (\$6,120) does not agree to the amount per the general ledger (\$0). The “Training & Seminars” amount per the income statement (\$3,420) does not agree to the amount per the general ledger (\$6,120); as a result, expenses are overstated by \$3,420 for the period.
2. “Excess (deficiency) of revenues and other financing sources over expenditures and other uses” is not calculated correctly for any of the income statements in FY20. This number should be formula driven, and it is not. Specifically, this amount should always be the difference between total revenues and total expenses.
3. While the beginning fund balance on the income statement for all months in FY20 agrees to the FY19 ending fund balance, this number cannot be relied upon for accuracy, as the FY19 September financial statements do not appear to be accurate. In addition, the beginning fund balance per the income statement (\$122,918.73) for all months in FY20 does not agree to the net amount of the opening balance equity and retained earnings per the general ledger (\$122,738.67), a variance of \$180.06.
4. The ending fund balance for all months in FY20 cannot be relied upon as the amounts used in calculating the ending fund balance are not properly supported/computed.

***Hot Checks Clearing Account Ledger***

During our review of the Clearing account general ledger, we noted this account currently contains over \$1,200 that has been on hand for an indeterminate period. A clearing account is intended to hold funds for only a limited time, no funds deposited into this account should remain there for more than one business day. The account balances for the Clearing Account ledger at the end of FY20 are as follows:

<b>Account</b>	<b>Amount</b>
<b>Debit Balances:</b>	
Cash	\$928.58
Retained Earnings	291.72
Total	1,220.30
<b>Credit Balances:</b>	
Due to CAPSO	923.52
Due to Restitution	296.28
Total	1,219.80
Difference:	\$.50

In addition to the timeliness of distribution issue, there is a \$291.72 debit balance in the Retained Earnings account (see schedule above), an account that cannot be utilized in an agency fund. The above schedule also shows the ledger is out of balance by \$.50.

**Significance:**

Financial statements are an important tool for planning, budgeting, and decision making for organizations. Inaccurate financial statements can lead to budgeting and reporting issues that affect the individual office and the County as a whole.

Clearing accounts are intended to hold funds collected for a short period of time until they can be distributed to the accounts in which they are intended to be accounted for. Funds that are held for long periods in a clearing account cannot be properly utilized (CAPSO) or disbursed (Restitution Trust). Funds posted to inappropriate accounts (retained earnings) also cannot be properly utilized/dispursed, and these erroneous postings result in invalid financial records and statements.

**Recommendations:**

We recommend the office reconcile all balance sheet accounts to the appropriate supporting documentation. All balances shown must be consistent across all utilized systems, including QuickBooks, FACTS, and Excel going forward. A monthly verification should be performed to ensure that any errors are corrected prior to monthly financial statements being issued.

Furthermore, we recommend the office review prior year financial statements to determine a correct, supportable fund balance. This valid fund balance should be utilized to adjust the applicable fiscal years' ledger and statements until a final, correct FY20 fund balance can be computed and recorded.



In addition, we recommend updating the financial statement Excel file to utilize formulas and/or correct any existing formulas that are incorrect. The financial statement preparer should verify accuracy of the financial statement numbers against the general ledger and other relevant supporting documents prior to providing them to the elected official for final approval and signature. If the balance sheet does not balance, the discrepancy should be investigated, and the applicable correcting entries should be entered prior to finalizing the financial statements

We also recommend reconciling the clearing account and making any necessary adjusting entries to balance the ledger and transfer all funds on hand to their appropriate accounts. Going forward, all funds in this account should be transferred to the proper accounts daily.

Management Response:

***Hot Checks Restitution Trust Account Ledger***

Thank you for the opportunity to respond to your comments concerning Restitution Financial Statements as reviewed in Examination 20-34. We appreciate the consistently collaborative way the Auditor's Office works with us to assure accuracy in our operations.

After reviewing the conditions noted above, the majority of the issues are due to data entry errors, and changes in everyday processing because of COVID, which allowed for the variance to flow across FY20. Unfortunately, there was not a process for double checking of the initial entries. We will be establishing a process for reviewing the initial entries. Additionally, for all of FY20 the office did not have a secondary reviewer of bank reconciliations. We will be establishing a process for a secondary review of bank reconciliations and we will be performing a monthly verification to ensure that any errors are corrected prior to monthly financial statements being issued.

*Action Plan:*

After reviewing the conditions noted above, the majority of the issues are due to data entry errors, and changes in everyday processing because of COVID. Unfortunately, there was not a process for double checking of the initial entries. We will be establishing a process for reviewing the initial entries. Additionally, for all of FY20 the office did not have a secondary reviewer of bank reconciliations. We will be establishing a process for a secondary review of bank reconciliations and we will be performing a monthly verification to ensure that any errors are corrected prior to monthly financial statements being issued.

Additionally, we will be reviewing the process of how the financial statements are created and what improvements can be made on the software used so all balances are consistent across all utilized systems. All entries, whether in QuickBooks, FACTS or Excel need to be done correctly and double check so errors are caught early and corrected.

*Implementation Date:*

Immediately

***CAPSO Account Ledger***

We will review the prior year financial statements to determine a correct, supportable fund balance that can be utilized to adjust the applicable fiscal year's ledger and statements and arrive at a

correct FY20 fund balance. Additionally, we will review and update the Excel file utilized to create this document and review the process used to create the CAPSO financial statements.

*Implementation Date:*

Immediately

***Hot Checks Clearing Account Ledger***

The County Attorney's Office agrees that Clearing accounts are only intended to hold funds collected for a short period of time until they can be distributed to the accounts in which they are intended for and ultimately properly disbursed or utilized.

The above issue was due to an event coding error submitted in FACTS.

*Action Plan:*

The clearing account will be reconciled, and necessary adjustments will be made to balance the ledger and transfer all funds to their appropriate accounts. Additionally, enabling the daily bank transfers online versus checks and utilizing updated financial software to download activity will let us post accurate information to the Clearing Account General Ledger.

*Implementation Date:*

Immediately

## **2. Reconciliation of Ledger to FACTS**

During our review of the Restitution Trust account, we noted that the monthly financial records and statements for the trust are not reconciled to the FACTS Summary Trial Balance for the applicable period.

**Significance:**

Financial statements are an important tool for planning, budgeting, and decision making for organizations. When supporting documentation used to create the financial statements, such as information contained in the FACTS system, is not reconciled regularly, errors or omissions may elude correction. This may lead to the presentation of inaccurate financial statements and/or erroneous collections and disbursements.

**Recommendations:**

The monthly financial records and statements should be reconciled to the FACTS Summary Trial Balance monthly.

**Management Response:**

The County Attorney's Office agrees that month-end balances on the internally-created financial statements should be reconciled to the FACTS Summary Trial Balance for the applicable period. This will lead to the submission of accurate financial statements to the Auditor's Office.

*Action Plan:*

After reviewing the conditions noted above, the majority of the issues are due to data entry errors, and changes in everyday processing because of COVID. Unfortunately, there was not a process for double checking initial entries. We will be establishing a process for reviewing the initial entries. We will also review the process of how the financial statements are created and review how the data is submitted to FACTS. We are also inquiring with JPM Chase about compatible software (e.g. QuickBooks) that will allow us to download daily activity directly, eliminating manual input errors, and resulting in accurate financial statements. We will be establishing a process for a secondary review of bank reconciliations and we will be performing a monthly verification to ensure that any errors are corrected prior to monthly financial statements being issued.

*Implementation Date:*

Immediately

### **3. Bank Reconciliation Issues**

During our review of bank reconciliations for all three bank accounts maintained by the Hot Checks Division, we noted issues with all three, as detailed below.

*Hot Checks Restitution Trust Account Bank Reconciliations*

During this review we noted the following (“x” denotes noncompliance):

	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20
"Plus Outstanding Deposits" agrees to QuickBooks (QB) reconciliation detail								x				
"Adjustments For" are supported	x	x	x	x	x	x	x	x	x	x	x	x
"Less Outstanding Transfers / Disbursements" agrees to QB reconciliation detail	x	x	x	x	x	x	x	x	x	x	x	x
"Total Adjusted Bank Balance" agrees to month end GL balance	x	x	x	x	x	x	x	x	x	x	x	x
"Ending Balance Per Books" (prior month's ending balance) agrees to GL	x	x	x	x	x	x	x	x	x	x	x	x
"Plus Other Deposits and Adjustments" agrees to GL current month debit total						x		x			x	
"Less Other Disbursements and Adjustments" agrees to GL's current month total										x		
"Total Adjusted Balance Per Books" agrees to GL	x	x	x	x	x	x	x	x	x	x	x	x
Preparer signed and dated reconciliation		x				x			x	x		
Reconciliation was completed w/in 5 business days of month end		x				x			x	x		
Reviewer signed and dated reconciliation	x	x	x	x	x	x	x	x	x	x	x	x

1. A reviewer signature is absent on every reconciliation for FY20.

2. A preparer signature and date are absent on the November, March, June, and July 2020 reconciliations. Therefore, determination of timely completion of the reconciliation is not possible.
3. There is an unsupported adjustment for \$2,117.26 on every reconciliation for FY20.
4. The "Less Outstanding Transfers/Disbursements" per the bank reconciliation does not agree to the QuickBooks reconciliation detail for every reconciliation in FY20.
5. The "Total Adjusted Bank Balance", "Ending Balance Per Books" (prior month's ending balance), and "Total Adjusted Balance Per Books" do not agree to the ending balance per the general ledger for every reconciliation for FY20.
6. The "Plus Other Deposits and Adjustments" amount per the March 2020 bank reconciliation (\$22,320) does not agree to the amount per the general ledger (\$22,279.84), a variance of \$40.36. This appears to be related to voids based on the supporting schedules included with the bank reconciliation; however, the only entries for this amount appear outside of March: a credit entry in April and a debit entry in May. In addition, this variance appears on the June, July, and September bank reconciliations as uncleared deposits on the QuickBooks reconciliation detail.

#### May 2020

The "Plus Outstanding Deposits" amount per the bank reconciliation (\$86.89) does not agree to the amount per the QuickBooks reconciliation detail (\$40.36), a variance of \$46.53.

#### July 2020

The "Less Other Disbursements and Adjustments" amount per the bank reconciliation (\$16,764.89) does not agree to the amount per the general ledger (\$16,651.14), a variance of (\$113.75).

#### August 2020

The "Plus Other Deposits and Adjustments" amount per the bank reconciliation (\$23,099.60) does not agree to the amount per the general ledger (\$22,985.85), a variance of \$113.75. This appears to be related to voids based on the supporting schedules included with the bank reconciliation.

#### ***Hot Checks Clearing Account Bank Reconciliations***

During our review of Clearing Account reconciliations, we noted the following ("x" denotes noncompliance):

	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20
"Plus Outstanding Deposits" agrees to QuickBooks (QB) reconciliation detail	x	x	x	x	x	x	x	x	x	x	x	x
"Less Outstanding Transfers/Disbursements" agrees to QB reconciliation detail									x	x	x	x
"Fees and Charges" and/or "Adjustments" are supported	x	x	x	x	x	x	x	x	x	x	x	x

	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20
"Total Adjusted Bank Balance" agrees to month end GL balance	x	x	x	x	x	x	x	x	x	x	x	x
"Ending Balance Per Books" (prior month's ending balance) agrees to GL	x	x	x	x	x	x	x	x	x	x	x	x
"Plus Other Deposits and Adjustments" agrees to GL current month debit total	x					x			x	x		
"Less Other Disbursements and Adjustments" agrees to GL current month credit total	x								x	x		
"Total Adjusted Balance Per Books" agrees to GL	x	x	x	x	x	x	x	x	x	x	x	x
Preparer signed and dated reconciliation						x			x	x	x	
Reconciliation was completed w/in 5 business days of month end						x			x	x	x	
Reviewer signed and dated reconciliation	x	x	x	x	x	x	x	x	x	x	x	x
Other noted preparation errors	x	x								x		

1. A reviewer signature is absent on every reconciliation for FY20.
2. A preparer signature and date are absent on the March, June, July, and August 2020 reconciliations. Therefore, determination of timely completion of the reconciliation is not possible.
3. The July 2020 bank reconciliation lists outstanding deposits and outstanding disbursements on incorrect lines of the reconciliation.
4. There is an unsupported adjustment for \$929.09 on every reconciliation for FY20.
5. The "Total Adjusted Bank Balance", "Ending Balance Per Books" (prior month's ending balance), and "Total Adjusted Balance Per Books" do not agree to the ending balance per the general ledger on every reconciliation for FY20.
6. The June 2020 through September 2020 reconciliations have "Less Other Disbursements and Adjustments" understated by \$0.51 compared to the general ledger. In addition, the June 2020 bank reconciliation shows an additional "Fees and Charges" adjustment to the bank balance in the amount of \$0.51. This appears to be related to a deposit in the amount of \$480.40 per the general ledger that clears the bank in the amount of \$480.91.

#### January 2020

Outstanding deposits per the general ledger total \$3,140.79; however, the QuickBooks reconciliation detail shows outstanding deposits totaling \$5,942.95, a variance of \$2,802.16.

#### March 2020

The "Plus Other Deposits and Adjustments" has a (\$20) variance between the bank reconciliation and the amount per the general ledger. Despite the bank error adjustment being booked to the general ledger, it does not appear the correct total of the month's activity was carried over to the bank reconciliation.

***CAPSO Bank Reconciliations***

We noted the following during our review of the CAPSO bank account reconciliations:

1. A reviewer signature is absent on every reconciliation for FY20.
2. A preparer signature and completion date are absent on the March, June, July, and August 2020 reconciliations. Therefore, determination of timely completion of the reconciliation is not possible.

**August 2020**

1. The "Less Other Disbursements and Adjustments" amount (\$18,324.15) does not agree to the amount per the general ledger (\$18,452.97) on the August reconciliation, for a variance of \$128.82. As a result, the August adjusted book balance per the reconciliation (\$90,702) does not agree to the ending balance per the general ledger (\$90,573.18), for the same variance of \$128.82. If correct amounts per the general ledger had been input in the reconciliation, this would not have been an issue that compounded in September (see below).
2. The August beginning bank balance per the reconciliation (\$90,831) does not agree to the balance per the bank statement (\$90,702.18), a variance of \$128.82. As a result, the adjusted bank balance per the reconciliation (\$90,702) does not agree to the ending balance per the general ledger (\$90,573.18), for the same variance of \$128.82.

**September 2020**

1. The beginning book balance on the September bank reconciliation (\$90,702) does not agree to the amount per the general ledger (\$90,573.18), as the incorrect number was rolled forward from the August reconciliation, resulting in a variance of \$128.82.
2. There is an adjustment on the September reconciliation for \$128.82 to reconcile the beginning book balance to the adjusted book balance. The adjustment has no support and is not necessary when the correct beginning book balance is used. It appears to be a plug to improperly force the account to reconcile.

**Significance:**

When bank reconciliations are not completed properly and accurately, potential errors are unlikely to be uncovered, investigated, or corrected. Timely preparation of bank reconciliations (within 5 business days of month end) is crucial to ensuring accurate financial statements are provided to interested parties.

It does not appear that the Clearing Account reconciliations are accurate, nor can they be relied upon when adjustments and amounts are not validated by supporting ledgers and documentation.

**Recommendations:**

We recommend any adjustments on the reconciliations be supported by detailed explanations for the adjustment and valid documentation. We also recommend a documented second review of all

bank reconciliations be performed to ensure the reconciliations are being completed accurately and timely.

Management Response:

***Hot Checks Restitution Trust Account Bank Reconciliations***

After reviewing the conditions noted above, the majority of the issues are due to data entry errors, and changes in everyday processing because of COVID. Additionally, for all of FY20 the office did not have a secondary reviewer of bank reconciliations. We will be establishing a process for secondary reviewer of bank reconciliations.

*Action Plan:*

Our goal is to implement updated financial software that can download bank activity directly and eliminate manual entry errors, leading to a more accurate reconciliation of bank statements. We will be establishing a process for reviewing the initial entries. And we will be establishing a process for secondary reviewer of bank reconciliation.

*Implementation Date:*

Immediately

***Hot Checks Clearing Account Bank Reconciliations***

After reviewing the conditions noted above, the majority of the issues are due to data entry errors, changes in everyday processing because of COVID. Unfortunately, there was not a process for double checking of the initial entries. We will be establishing a process for reviewing the initial entries. Additionally, for all of FY20 the office did not have a secondary reviewer of bank reconciliations. We will be establishing a process for secondary reviewer of bank reconciliations.

*Action Plan:*

Our goal is to implement updated financial software that can download bank activity directly and eliminate manual entry errors, leading to a more accurate reconciliation of bank statements. We will be establishing a process for reviewing the initial entries. And we will be establishing a process for secondary reviewer of bank reconciliation.

*Implementation Date:*

Immediately

***CAPSO Bank Reconciliations***

The County Attorney's Office agrees that timely preparation of bank reconciliations is crucial to ensuring accurate financial statements are provided to the Auditors.

The variation referenced for August and September 2020 were due to a manual input error in QuickBooks and a lack of a secondary review of bank reconciliations. The secondary review of bank reconciliations was previously conducted by the District Attorney's Office. However, this process existed when the District Attorney's Office was co-located with the County Attorney, ending about 3 1/2 years ago when DA's office moved to its new location.

*Action Plan:*

We will review the process of bank reconciliations and plan to assign a secondary reviewer. We are also inquiring with JPM Chase about compatible software (e.g. QuickBooks) that will allow us to download daily activity directly, eliminating manual input errors, resulting in accurate financial statements. We anticipate many of these issues will be resolved once Odyssey hot checks system comes online in the next two years.

*Implementation Date:*

Immediately

**4. Internal Controls**

During our review of the CAPSO, Restitution, and Clearing accounts for FY20, we noted the following areas of concern relating to internal controls:

1. Adjusting journal entries do not require review and approval by management.
2. Restitution disbursements do not require two signatures for checks over a certain dollar amount. In addition, the office utilizes a signature stamp for these disbursements.
3. The division utilizes a signature stamp for Restitution Trust account checks. The stamp, while kept in a locked drawer during the day and a safe overnight, is accessible by two employees: the Senior Accountant and the Senior Office Specialist. Both parties perform duties that, when coupled with disbursement processes, are incompatible with proper segregation of duties controls.

Significance:

Segregation of duties relates to dividing incompatible duties between multiple parties. These controls are implemented to help prevent fraud and detect errors.

Recommendations:

We recommend management approve all adjusting journal entries. We also recommend that restitution disbursements be reviewed by a third party (preferably a manager) and that a party with no disbursement process duties be responsible for using and securing the signature stamp.

Management Response:

The County Attorney's Office agrees that Internal Controls are needed to help prevent fraud and detect errors.

For clarification, there are several adjusting journal entries in FACTS that do not require additional control of a manager's approval. For example, restitution payments received on the last business day of the month but not deposited till the next month, or when we receive proof that a defendant has passed away, and their account must be adjusted.

Restitution Disbursements: Hot Checks used to have an option for the manager to review and release the restitution disbursements prior to the printing of checks but that function was removed



from FHC about 3 years ago. Currently, an Office Specialist reviews the printed disbursement checks against the check vouchers and stamps the checks. Additionally, the disbursements are reviewed by the Accountant Senior on Share Point Reporting Services after the previous step. These will also be reviewed by an additional manager to address concerns.

The signature stamp is currently locked up in the investigators safe every night and none of the individuals in the Check Division have access to the safe or the office. The stamp is brought out in the morning if funds were received the previous day and is needed to stamp the Clearing Account checks for the necessary transfers to the CAPSO and Restitution accounts. It is also used to stamp the Non-Probation Restitution checks that are mailed out no later than the 6<sup>th</sup> or 7<sup>th</sup> day of the month. Though two employees, Accountant Senior and Office Specialist Senior, have access to the stamp on the days it is needed, only the Office Specialist Senior has the ability to create and print disbursement checks. Additionally, only the number of checks needed to process that day's business are removed from the safe. All unsigned blank checks remain in the locked safe.

CAPSO checks require a signature by the County Attorney and the County Treasurer.

*Action Plan:*

Moving forward we will incorporate a Financial Analyst in reviewing and approving adjusting journal entries in the CAPSO, Restitution and Clearing Accounts.

Regarding Restitution Disbursements, besides the first review of the checks against the check vouchers by the Office Specialist, a second review will be performed by a Financial Analyst and ultimately there will be a third review by Accountant Senior on Share Point Reporting Services.

We will consider moving to online transfers from the Clearing account to the Restitution and Clearing accounts to eliminate the use of checks, but this decision will need approval from the newly elected official.

*Implementation Date:*

Immediately

## **5. Receipt Issues**

During our review of receipts issued and deposited during the examination period, we noted the following:

Daily close out reports/deposit documents

1. On 4/20/2020, a daily receipt totaling \$980.20 was posted in FACTS. The corresponding entries in the clearing account general ledger and deposits to the JP Morgan Chase clearing account totaled \$1,030.20.
2. On 12/13/19, the division accepted a check in the amount of \$861.63 payable to an outside party and not the division, electronically depositing it into a division bank account on 12/16/2019.

3. While the cashiers initialed their daily close out reports, the reviewers' initials were not recorded.

#### Manual Receipt log

1. Receipt #27409, that was recorded on the log for \$13,000, was later recorded in FACTS for \$100 on receipt #C52144 for hot check ID #383136.
2. Receipt #27438, that was recorded on the log for \$2,000, was later recorded in FACTS for \$35 on receipt #C52221 for hot check ID #383253.
3. Receipt #27398, that was recorded on the log for \$438.59, was later recorded in FACTS for \$160 on receipt #C52119 for hot check ID #383080.
4. Details for receipt #27449 were omitted on the log. This manual receipt was issued on 1/15/2020 in the amount of \$2,184.49, but the applicable funds were not receipted in FACTS until 4/28/2020. The delay occurred because the money orders provided for the transaction lacked a signature. The division mailed the money orders back to the payer for signature without voiding the initial manual receipt.
5. Both manual receipt #27442, recorded in the amount of \$6,500 on 1/17/2020, and manual receipt #27483, recorded in the amount of \$329, were cross referenced to FACTS receipt #52234 as support for their posting. The \$329 item should have been cross referenced to FACTS receipt #52334.

#### Significance:

The accurate tracking, recording, and accounting for receipts and deposits are essential controls over collections that aid in ensuring all funds received are properly safeguarded. Internal controls for collections should be in place to ensure that the proper amounts are recorded and deposited into the division's bank account to the credit of the correct parties. It is particularly important that the manual receipt log tie to the applicable entries in the accounting/operating system. This log is the primary verification that manually-receipted funds are properly accounted for.

#### Recommendations:

Internal controls over cash collections should be improved to prevent the noted issues. All discrepancies should be thoroughly researched and corrected as appropriate. Management should periodically review and verify the manual receipt log to ensure this important schedule is being properly maintained and utilized.

#### Management Response:

The County Attorney's Office agrees that accurate tracking, recording, and accounting for receipts and deposits are essential controls over collections that aid in ensuring all funds received are properly recorded and deposited in the correct accounts to the credit of the correct parties.

The Conditions noted in Daily Close Out Reports and deposit documentation were avoidable errors with more attention to detail, review by another employee and or clarification by a manager if necessary.

Regarding Manual Receipts, a review of the receipting and voiding process should be undertaken by the Auditor's and our Office. It appears the listing on the receipt of the total amount due by the defendant and the partial amount paid lead to several input errors in FACTS and at least one on an Excel receipt log. Additionally, the voiding of a receipt requires having all 3 parts in hand, but if 1 was given to the defendant in error, it is unlikely they will mail it back to us.

Many of these issues will be resolved with the implementation of Odyssey in May 2021.

*Action Plan:*

We have transitioned to taking "exact cash only" and has not been an issue since in person transaction have been limited. We are currently working with ITS in order to establish a way to pay by credit card that is compliant with all federal and state laws. One possibility being considered is whether to eliminate accepting cash all together. We are currently reviewing that option. Accepting cash creates an opportunity for error in the posting of funds and eliminates the delay of transfers to the Restitution and CAPSO accounts. Daily transfers to the Restitution and CAPSO will be moved to online versus having to draft checks to the respective accounts the next day. We are also inquiring with JPM Chase about compatible financial software (e.g. QuickBooks) that will allow us to download activity directly and eliminate manual input errors.

Additionally, after a transaction has been received at the window and posted to FACTS by the Office Specialist, the posting and Manual Receipt will be reviewed by another employee for accuracy. At the end of the day, the day's postings to FACTS and Manual Receipts will be reviewed again by the Accountant Senior or Office Specialist Senior and compared to the Manual Receipt Log. Any errors would be flagged right away and corrected that same day.

*Implementation Date:*

Immediately

## **ATTACHMENT A – OVERALL MANAGEMENT RESPONSE**

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The following response is provided to clarify facts, to address recommendations or concerns identified by the County Auditor's evaluation and examination of the County Attorney CAPSO and CA Restitution Department ("Hot Checks"). Thank you for the opportunity to respond and for the suggestions on how to improve processes. The Travis County Attorney's Office is committed to address any concerns and is committed to incorporating best practices.

As you will note, there are several factors that have contributed to some of the issues identified. For example, in response to the COVID-19 pandemic, Hot Checks moved to working remotely. However, the transition to working remotely did not account for the process changes necessary for long term operations of these functions remotely. As such, manual errors in the processing of data entries, entry adjustments, and reconciliations were not addressed. Hot Checks is working to correct any specific concerns raised by the audit. At the same time, overall process and procedure changes will be reviewed and more oversight will be implemented.

Also please keep in mind a couple of additional factors that should address concerns upon implementation. Travis County will be implementing the Odyssey program soon. This program should allow for a more responsive accounting process when it goes live in May. The Travis County Attorney's Office is also working with IT to find a credit card processing system that is compliant with federal and state law while meeting Travis County IT security concerns.

We invite the County Auditor to communicate future issues with Hot Checks as they appear. We trust that our efforts and the coming implementation of the Odyssey program will lessen if not eliminate future issues.

## ATTACHMENT B – FINANCIAL STATEMENTS

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### County Attorney CAPSO Account Special Revenue Fund Detailed Statement of Revenues, Expenditures, and Changes in Fund Balance For the Year Ended September 30, 2020

**Revenues:**

Charges for Services	\$ 17,151
Total revenues	<u>17,151</u>

**Expenditures:**

## Current:

Court Costs	2,490
Professional Memberships	6,120
Training & Seminars	7,140
Miscellaneous	17,780
Total expenditures	<u>33,530</u>

Excess (deficiency) of revenues over expenditures	<u>(16,379)</u>
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**Other financing sources (uses):**

Transfers in	-
Transfers out	(18,351)
Total other financing sources (uses)	<u>(18,351)</u>

Net change in fund balance	(34,730)
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Fund balance - beginning of year	<u>123,652</u>
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Fund balance - end of year	<u><u>\$ 88,922</u></u>
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NOTE: The express purpose of presenting this financial statement and the appropriate findings is to comply with applicable local government code statutes and to provide internal control feedback to Travis County officials. This financial statement has not been audited by Travis County's external auditors.

**County Attorney CAPSO Account  
Special Revenue Fund  
Balance Sheet  
September 30, 2020**

**Assets**

Cash on Hand/in Depository	\$ 88,929
Total assets	<u>\$ 88,929</u>

**Liabilities and Fund Balance**

**Liabilities:**

Due to other funds	\$ 7
Total liabilities	<u>\$ 7</u>

**Fund balance:**

Reserved for encumbrances	-
Unreserved - undesignated	\$ 88,922
Total fund balance	<u>\$ 88,922</u>

Total liabilities and fund balance	<u>\$ 88,929</u>
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NOTE: The express purpose of presenting this financial statement and the appropriate findings is to comply with applicable local government code statutes and to provide internal control feedback to Travis County officials. This financial statement has not been audited by Travis County's external auditors.

**County Attorney Hot Check Restitution Fund**  
**Agency Fund**  
**Balance Sheet**  
**September 30, 2020**

**Assets**

Cash in Depository-County	\$ 160,909
Accounts Receivable	292
Total assets	<u><u>\$ 161,201</u></u>

**Liabilities**

Due to other governmental entities	\$ 9,208
Other Liabilities-Misc.	151,993
Total liabilities	<u><u>\$ 161,201</u></u>
Net Assets	<u><u>\$ -</u></u>

NOTE: The express purpose of presenting this financial statement and the appropriate findings is to comply with applicable local government code statutes and to provide internal control feedback to Travis County officials. This financial statement has not been audited by Travis County's external auditors.